

Using debt to maintain status quo leaves families on rocky road to recovery

May 27 2015, by Jared Wadley

Economically vulnerable families are increasingly willing to take on debt to maintain a basic standard of living—a situation that can put them into a deep financial hole, according to a new University of Michigan study.

Poor families can find it challenging to stay on top of bills to keep the lights on, food on the table and a roof over their head—and they fall into debt, said Kristin Seefeldt, U-M assistant professor of social work and public policy.

"Unfortunately, once in debt, getting out was difficult," she said.

Trying to replace short-term losses of income with credit cards or other loans—"consumption smoothing"—means families who are already in debt acquire more, she said.

Furthermore, investments families make for the future, such as taking out student loans or mortgages, may not pay off immediately. Individuals must repay thousands of dollars in student loans, but work in low-wage jobs. The weakened housing market left many owners owing more than what their homes are worth.

The study sampled 45 low- and moderate-income Detroit area women who ranged in age from 21 to 61 years old. All were interviewed once each year between 2006-2011 about their employment, experiences with public assistance programs, household finances and debt.

All households, at some point in time, carried some debt. Low wages, unstable employment and difficulty receiving public benefits in a timely manner resulted in many women borrowing to make ends meet, the study found.

Some women used [credit cards](#) to cover expenses, such as groceries or gas, when their income dropped. A common practice also involved respondents paying only portions of their bills or rotating payments on bills over the course of several months.

Personal bankruptcy filings made by seven women didn't erase all debt. In some cases, they started accumulating debt again, Seefeldt said.

Some women's [debt](#) was repaid through wage and tax refund garnishment, whereby a portion of a paycheck or refund check is sent to a creditor. Getting garnished was highly disruptive to families' financial lives, since it was unexpected.

Higher wages and more stable employment would help many families with their financial troubles. National efforts to raise the federal minimum wage "are a step in this direction," Seefeldt said. A more robust safety net, such as unemployment insurance and Temporary Assistance for Needy Families, would also help families.

More information: The study appears in the current issue of *Social Service Review*: www.jstor.org/stable/10.1086/681932

Provided by University of Michigan

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